

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**REPORT ON FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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## ***INDEPENDENT AUDITORS' REPORT***

January 30, 2009

Members of the Authority's Board  
Beaver Island Transportation Authority  
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Beaver Island Transportation Authority, Charlevoix County, Michigan, as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the Special Revenue Fund.

Beaver Island Transportation Authority has not presented a management discussion and analysis that the Government Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2009 on our consideration of Beaver Island Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required budgetary comparison information and additional information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

## **Basic Financial Statements**

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2008**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 47,679
Accounts receivable	55,700
Due from State	33,081
Boat study	<u>13,846</u>
Total current assets	<u>150,306</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>5,521,351</u>
	<u><u>\$ 5,671,657</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities:	
Accounts payable	\$ 124,162
Accrued Liabilities	<u>1,370</u>
Total current liabilities	<u>125,532</u>
Net assets:	
Invested in capital assets, net of related debt	5,521,351
Unrestricted	<u>24,774</u>
Total fund balances	<u>5,546,125</u>
	<u><u>\$ 5,671,657</u></u>

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (expenses) And changes in Net assets
		Charges for Services	Operating Grants and Contributions		
Governmental activities:	\$ 1,188,136	\$ 370,270	\$ 309,380	\$ 512,386	\$ 3,900
<b>General revenues:</b>					
Interest and investment earnings					888
Total General revenues					888
CHANGES IN NET ASSETS					4,788
Net assets – beginning of year					5,541,337
Net assets – end of year					\$ 5,546,125

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
BALANCE SHEETS  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008**

	Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 47,679	\$ 47,679
Accounts receivable	55,700	55,700
Due from State	33,081	33,081
Boat study	13,846	13,846
	<u>\$ 150,306</u>	<u>\$ 150,306</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	\$ 124,162	\$ 124,162
Accrued Liabilities	1,370	1,370
	<u>125,532</u>	<u>125,532</u>
Total liabilities		
Fund balances:		
Unreserved:		
Undesignated	24,774	24,774
	<u>24,774</u>	<u>24,774</u>
Total fund balances		
	<u>\$ 150,306</u>	<u>\$ 150,306</u>

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

**Amounts reported for governmental activities in the statement of net assets are different because:**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 24,774</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:	
Cost of capital assets	7,372,831
Accumulated depreciation	<u>(1,851,480)</u>
<b>Total net assets - governmental activities</b>	<b><u>\$ 5,546,125</u></b>

The notes to the financial statements are an integral part of this statement.



**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Special Revenue Fund	Total Governmental Funds
REVENUES:		
State grants:		
Capital		
Capital Grant: 2004-0056	\$ 128,579	\$ 128,579
Capital Grant: 2005-0023	133,311	133,311
Capital Grant: 2006-0100	47,553	47,553
Capital Grant: 2007-0172	184,683	184,683
Capital Grant: 2008-102232	18,260	18,260
Operating assistance		
Operating assistance - 2008	358,070	358,070
Operating assistance - 2007	(45,936)	(45,936)
Operating assistance - 2005	(3,281)	(3,281)
Operating assistance - 2004	527	527
Local sources	370,270	370,270
Interest income	888	888
	<hr/>	<hr/>
Total revenues	1,192,924	1,192,924
	<hr/>	<hr/>
EXPENDITURES:		
Labor	45,760	45,760
Fringe benefits	9,240	9,240
Services	24,081	24,081
Materials and supplies	655,777	655,777
Utilities	10,524	10,524
Insurance	9,754	9,754
Taxes	3,500	3,500
Miscellaneous	7,399	7,399
Leases and rentals	26	26
Capital outlay	514,218	514,218
	<hr/>	<hr/>
Total expenditures	1,280,279	1,280,279
	<hr/>	<hr/>
NET CHANGES IN FUND BALANCES	(87,355)	(87,355)
	<hr/>	<hr/>
FUND BALANCES:		
Beginning of year	112,129	112,129
	<hr/>	<hr/>
End of year	\$ 24,774	\$ 24,774
	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Amounts reported for governmental activities in the statement of activities are different because:**

<b>Total net change in fund balances – governmental funds</b>	<b>\$</b>	<b>(87,355)</b>
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Capital outlays to purchase capital assets and books are recorded in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and depreciated over their estimated useful lives as annual depreciation in the statement of activities.

This amount by which capital outlays exceeded depreciation in the period.

	Capital outlays	514,218	
	Depreciation expense	<u>(422,075)</u>	92,143
			<u>                    </u>

<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>4,788</u></b>
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The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Beaver Island Transportation Authority (the Authority) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity**

The Authority was created under the Public Transportation Authority Act No. 196 of the P.A. of 1986 as amended, on January 6, 1993. The incorporating political subdivision is St. James Township.

The purpose of the Authority is to plan, promote, purchase, acquire, establish, own, operate, or cause to be operated, maintain, improve, enlarge, and modernize a mass transit system in the greater Beaver Island area.

The Authority Board is comprised of five (5) members appointed by the governing bodies of the political subdivisions participating in the Authority. Representation on the Board is proportional to the population of the respective political subdivisions.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Authority has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

The Authority reports the following major governmental funds:

The *special revenue fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Authority and are recognized as revenue at that time.

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities and Equity**

**1. Cash and investments**

Cash includes amounts in demand deposits and certificates of deposit.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

The Authority Board has designated one bank for the deposit of Authority funds.

**2. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet in the governmental fund financial statements.

**3. Capital Assets**

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets with an initial, individual cost of less than \$5,000 and/or an estimated useful life of less than one year and purchased with Federal and/or State grants are expensed and subtracted out as ineligible on the "Maximum Reimbursement Computations of Local Bus Operating Assistance". Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities and Equity (continued)**

**3. Capital Assets**

Property and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Building and improvements	40 yrs
Ferry	30 yrs
Fence	20 yrs
Dock	15 yrs
Parking lot	10 yrs
Ferry improvements	10 yrs
Security system	10 yrs
Miscellaneous capital outlays	10 yrs
Machinery and equipment	7 yrs
Boat study	5 yrs
Computer equipment	5 yrs
Office equipment and furnishings	5 yrs
Vehicles	5 yrs

Depreciable lives are preapproved by the Michigan Department of Transportation, for assets purchased with local funds.

**4. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

The Authority does not have any long-term obligations.

**5. Fund Balance**

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

**6. Use of Estimates**

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Assets, Liabilities and Equity (continued)**

**7. Cost Allocation Plans**

Beaver Island Transportation Authority does not have any Bureau of Transportation approved cost allocation plans on file and it is determined that the Authority does not provide any services that would require a cost allocation plan.

**8. Capital Funds**

Capital funds of \$49,920 were used to purchase certain assets that did not meet the capitalization policy of the Authority and are included as operating expenses. These expenses have been subtracted out as ineligible expenses in the calculation of State Operating Assistance

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Authority Administrator submits to the Authority Board a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Board of Trustees resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Authority Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued**

**A. Budgetary information - continued**

6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30<sup>th</sup>.

**B. Excess of expenditures over appropriations**

During the year ended September 30, 2008, the Authority incurred expenditures in numerous budgetary funds which were in excess of amounts appropriated.

**NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK**

Cash and cash equivalents are held separately in the name of the Authority by each of the Authority's funds.

**Deposits**

At year-end, the carrying amount of the Authority's deposits were \$47,670 and the bank balance was \$60,333 of which \$60,333 was covered by federal depository insurance and \$0 was uninsured and uncollateralized.

The Authority has no investments as of September 30, 2008. The Authority has the following risk disclosures:

*Interest Rate Risk* – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* – The Authority's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Authority shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.



**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK - continued**

All excess monies over the insured limits of the financial institution or banks, the Authority shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Authority held in trust by the financial institution or bank. The Authority may choose collateralization in the following form and percentages:

1.	U.S. Treasury Notes	-	100%; or
2.	U.S. Treasury Notes and/or Bonds	-	75% and
3.	Mortgage Backed Securities	-	25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter of the Authority.

The Authority has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The Authority places no limit on the amount the district may invest in any one issuer.

**NOTE 4 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS**

Capital asset balances and activity for the year ended September 30, 2008 were as follows:

	Beginning of year	Additions	Retirements/ Reclassifications	End of year
Ferry	\$ 3,776,941	\$	\$	\$ 3,776,941
Ferry improvements	230,479	507,431		737,910
Dock	1,069,284			1,069,284
Building and improvements	546,004			546,004
Miscellaneous capital outlays	461,724			461,724
Vehicles	165,623			165,623
Machinery and equipment	247,835	6,787		254,622
Parking lot	114,814			114,814
Fence	101,032			101,032
Computer equipment	61,167			61,167
Security system	45,962			45,962
Boat study	15,974			15,974
Office equipment	21,774			21,774
	6,858,613	514,218		7,372,831
Accumulated Depreciation	1,429,405	422,075		1,851,480
Net capital assets	<u>\$ 5,429,208</u>	<u>\$ 92,143</u>	<u>\$</u>	<u>\$ 5,521,351</u>

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5: RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Authority has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Independent Contractor (Beaver Island Boat Company) that operates the ferry vessel shall provide workers' compensation insurance coverage for personnel used in the operation of the ferry vessel and maritime insurance coverage for personnel used by the Independent Contractor in the operation of the ferry vessel.

The Independent Contractor shall be responsible for insuring the vessel provided by the Authority under the terms of this Agreement and shall provide for protection and indemnity insurance coverage, excess liability coverage, and hull and machinery coverage. Said coverage shall be paid for and provided by the Independent Contractor with the Authority named as second insured.

**NOTE 6: PENSION PLAN**

The Authority does not provide a pension plan for its employees.

**NOTE 7: MANAGEMENT/OPERATING AGREEMENT**

The operation of a ferry between Beaver Island and Charlevoix is necessary for the public welfare, good and convenience of the citizens of Beaver Island. The Authority has the power to provide a system of transportation for its citizens and is authorized to subcontract the management and operation of a ferry service to a third party.

The Beaver Island Transportation Authority (BITA) agreed to a management services agreement with the Beaver Island Boat Company (BIBCo), dated May 29, 2003.

The term of this Agreement shall be thirty (30) years, commencing December 21, 1993.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS**  
**YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>			Variance with Final Budget- Favorable (unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
State grants:				
Capital	\$	\$	\$ 512,385	\$ 512,385
Operating assistance	294,504	294,504	309,380	14,876
Local sources	294,504	294,504	370,271	75,767
Interest income	500	500	888	388
	<u>589,508</u>	<u>589,508</u>	<u>1,192,924</u>	<u>603,416</u>
Total revenues				
EXPENDITURES:				
Labor	45,760	45,760	45,760	0
Fringe benefits	10,000	10,000	9,240	760
Services	17,005	17,005	24,081	(7,076)
Materials and supplies	455,638	455,638	655,777	(200,139)
Utilities	9,900	9,900	10,524	(624)
Insurance	12,100	12,100	9,754	2,346
Taxes	2,675	2,675	3,500	(825)
Miscellaneous	12,360	12,360	7,399	4,961
Leases and rentals	30	30	26	4
Capital outlay			514,218	(514,218)
	<u>565,468</u>	<u>565,468</u>	<u>1,280,279</u>	<u>(714,811)</u>
Total expenditures				
NET CHANGES IN FUND BALANCES	<u>\$ 24,040</u>	<u>\$ 24,040</u>	(87,355)	<u>\$ (111,395)</u>
FUND BALANCES:				
Beginning of year			<u>112,129</u>	
End of year			<u>\$ 24,774</u>	

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**SCHEDULE OF OPERATING EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2008**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total 2008</u>
Labor:				
Operating salaries and wages	\$	\$	\$ 45,760	\$ 45,760
Fringe benefits:				
Other fringe benefits			12,740	12,740
Services:				
Advertising			110	110
Accounting - audit			7,368	7,368
Other services	15,379		1,224	16,603
Materials and supplies consumed:				
Fuel and lubricants	594,825			594,825
Other supplies	988	58,270	1,694	60,952
Utilities:				
Utilities			8,637	8,637
Telephone			1,867	1,867
Sanitation			20	20
Casualty and liability cost:				
Liability and property damage insurance	9,754			9,754
Insurance – other				
Miscellaneous expenses:				
Travel			7,018	7,018
Association dues and subscriptions			268	268
Miscellaneous expenses			113	113
Leases and rentals			26	26
Depreciation	<u>405,657</u>		<u>16,418</u>	<u>422,075</u>
TOTAL EXPENSES	<u>\$ 1,026,603</u>	<u>\$ 58,270</u>	<u>\$ 103,263</u>	<u>\$ 1,188,136</u>

**BEAVER ISLAND TRANSPORTATION AUTHORITY  
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS  
OF GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2008**

Expenses:	
Labor	\$ 45,760
Fringe benefits	12,740
Services	24,081
Materials and supplies	655,777
Utilities	10,524
Casualty and liability insurance	9,754
Miscellaneous expenses	7,399
Rentals	26
Depreciation	<u>422,075</u>
 TOTAL EXPENSES	 <u>1,188,136</u>
 Less ineligible expenses:	
Depreciation:	
Grant assets	422,075
Capital grant expenses	<u>49,920</u>
 Total ineligible expenses	 <u>471,995</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 716,141</u>
 Maximum reimbursement 50%	 <u>\$ 358,071</u>

**BEAVER ISLAND TRANSPORTATION AUTHORITY**  
**SCHEDULE OF FINANCIAL ASSISTANCE**  
**STATE OF MICHIGAN**  
**YEAR ENDED SEPTEMBER 30, 2008**

Federal grantor/Pass through grantor Program title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Beginning Receivable/ (Deferral)	Receipts	Disbursements	Adjustments	Ending Receivable/ (Deferral)
<b>Michigan Department of Transportation</b>								
Operating assistance Act 51		2008	\$ 294,504	\$	\$ 294,504	\$ 358,070	\$	\$ 63,566
Operating assistance Act 51		2007	277,475	(31,047)				(31,047)
Operating assistance Act 51		2006	275,100	(35,568)			36,130	562
Capital Grant Section 5309		07-0172/Z2	200,000		18,125	18,125		
Capital Grant Section 5309		07-0172/Z1	209,700		184,683	184,683		
Capital Grant Section 5309		06-100	268,088		47,553	47,553		
Capital Grant Section 5309		05-0023	231,053		133,311	133,311		
Capital Grant Section 5309		04-0056	380,627		128,578	128,578		
TOTAL STATE OF MICHIGAN ASSISTANCE			<u>\$ 2,136,547</u>	<u>\$ (66,615)</u>	<u>\$ 806,754</u>	<u>\$ 870,320</u>	<u>\$ 36,130</u>	<u>\$ 33,081</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

January 30, 2009

Members of the Authority's Board  
Beaver Island Transportation Authority  
Beaver Island, Michigan

We have audited the financial statements of the business-type activities of Beaver Island Transportation Authority as of and for the year ended September 30, 2008, which collectively comprise Beaver Island Transportation Authority basic financial statements and have issued our report thereon dated January 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Beaver Island Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Beaver Island Transportation Authority internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Beaver Island Transportation Authority internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Beaver Island Transportation Authority ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Beaver Island Transportation Authority financial statements that is more than inconsequential will not be prevented or detected by Beaver Island Transportation Authority internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Beaver Island Transportation Authority internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and other matters**

As part of obtaining reasonable assurance about whether Beaver Island Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Transportation Authority was in noncompliance with its operating budget.

This report is intended solely for the information and use of the Board of Directors, management and the Michigan Department of Transportation and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377  
www.harrisgroupcpa.com





January 30, 2009

Beaver Island Transportation Authority  
PO Box 426  
Beaver Island, MI 49782

In planning and performing our audit of the financial statements of Beaver Island Transportation Authority for the fiscal year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Beaver Island Transportation Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following significant deficiencies:

#### BIBCO Fuel Reimbursements

The process for determining fuel reimbursements with the Beaver Island Boat Company (BIBCO) needs to be formalized. It is our understanding that there is a meeting with BIBCO officials to determine the net reimbursement. The supporting documentation only shows the total paid and the reason for the payment. When reconciling the amount of actual expenditures to the amount charged BIBCO, there should be a document prepared outlining how the reimbursement amount was calculated. This schedule should be approved by Beaver Island Transportation Authority management prior to issuing payment.

Fuel reimbursement to BIBCO is not being reconciled until April of the following year. This results in the failure to record an accrual for the fuel reimbursement at the end of the fiscal year. The amount should be reconciled and accrued at the end of the fiscal year for proper matching of income and expense.

Budget

Nothing was budgeted for capital outlay or capital grant revenue for the year. The budget should include capital outlay and capital grant items as well as operating grant and expense items.

No budget amendments were made during the year. As the Transportation Authority becomes aware of necessary changes to the budget throughout the year, budget amendments should be made with approval by the board of directors.

This report is intended solely for the information and use of Beaver Island Transportation Authority, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants



January 30, 2009

To the Board of Directors  
Beaver Island Transportation Authority

We have audited the financial statements of Beaver Island Transportation Authority for the year ended September 30, 2008, and have issued our report thereon dated December 30, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated November 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Beaver Island Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Beaver Island Transportation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Beaver Island Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the Transportation Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 30, 2009.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Transportation Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Public Transit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Beaver Island Transportation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Certified Public Accountants